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FISCAL IMPACT STATEMENT

LS 7626 **NOTE PREPARED:** Jan 7, 2003
BILL NUMBER: HB 1773 **BILL AMENDED:**

SUBJECT: Sustainable Energy.

FIRST AUTHOR: Rep. Pelath **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill establishes the Sustainable Energy Corporation to: (1) ensure that all Indiana electric and gas ratepayers are given the opportunity to participate in and benefit from a comprehensive set of sustainable energy programs and initiatives designed to overcome barriers to implementation; and (2) promote and implement sustainable energy technologies and measures in Indiana.

The bill establishes the Sustainable Energy Fund to make loans and award grants to implement sustainable energy programs. The bill requires an electric distribution company and a gas distribution company to impose a monthly surcharge on those retail customers that meet or exceed specified consumption levels for deposit in the fund beginning September 1, 2003.

The bill allows an electric distribution company and a gas distribution company to file a rate case with the Indiana Utility Regulatory Commission to recover lost revenue due to sustainable energy programs initiated by the Corporation.

Effective Date: Upon passage.

Explanation of State Expenditures: This bill names a board of directors to establish and oversee the Sustainable Energy Corporation, a private nonprofit corporation dedicated to promoting and implementing sustainable energy programs in Indiana. The Board will consist of the Lieutenant Governor, the Chair of the IURC, the Utility Consumer Counselor, and 13 Governor appointees representing academia, the energy industry, business and residential energy consumers, the environment, and labor. The Board is required to meet at least quarterly. Members are not entitled to a per diem, but would be reimbursed for travel costs.

Sustainable Energy Corporation: The Corporation is charged with providing a variety of initiatives and programs to assist with the promotion of energy efficiency and the use of energy from sustainable sources. The activities of the Sustainable Energy Corporation will have a limited direct impact on state expenditures. All expenditures or grants issued by the Sustainable Energy Corporation would be financed from a surcharge on retail users of electricity and natural gas (see *Sustainable Energy Fund*, below).

State agencies that purchase natural gas and electricity would be subject to the fees imposed in this bill.

IURC: Allowing electric and natural gas utilities to file rate cases to recover revenue lost due to the provisions in this bill will require the IURC to conduct additional hearings and increase its administrative and investigatory burden. The Office of the Utility Consumer Counselor (OUCC) would also be involved in any additional hearings. The bill also requires the IURC to direct natural gas and electric utilities to impose a monthly per unit surcharge on certain retail consumers, payable to the Sustainable Energy Fund, beginning September 1, 2003. While the bill could increase the IURC and OUCC's administrative costs, the impact is not expected to be greater than the funding resources currently available.

Background on IURC and OUCC Funding: The operating budgets of the IURC and OUCC are funded by regulated utilities operating in Indiana. The IURC determines the rate at which to bill the utilities based on the two agencies' budgets, less reversions, divided by the total amount of gross intra-state operating revenue received by the regulated utilities for the previous fiscal year. Based on this formula, utilities are currently billed approximately 0.10% of their gross intra-state operating revenues to fund the IURC and OUCC. In FY 2002, fees from the utilities and fines generated approximately $9.5 M.

State Board of Accounts: The bill requires the State Board of Accounts to audit the Sustainable Energy Corporation on an annual basis. The Corporation would pay the full cost of the audit.

Explanation of State Revenues: *Sustainable Energy Fund*: The bill establishes the Sustainable Energy Fund to fund the Corporation's activities. While the bill does not specify what surcharge the IURC must impose, the fee is capped at $0.0003 per kilowatt for electric consumers and $0.30 per decatherm for natural gas consumers. Additionally, the bill specifies that the Commission may only charge the surcharge to electricity users who use over 2,000 kilowatt hours of electricity each month and on natural gas users that use over 20 decatherms each month.

Data from the U.S. Department of Energy, Energy Information Agency, on Indiana electricity and natural gas consumption suggest that the typical residential electricity user uses approximately 938 kilowatt hours of electricity per month, while the average commercial entity uses about 5,867 kilowatt hours each month. On the natural gas side, the data suggest that the average Indiana household uses about 5 decatherms each month, while commercial entities consume about 26 decatherms. Based on this information, it was assumed that the surcharge would be primarily imposed on commercial electric and natural gas users. Based on this assumption, if the IURC were to impose the highest surcharge rates and only commercial entities were affected, it is estimated that the surcharges could generate approximately $33.8 M in CY 2004 and $34.4 M in CY 2005.

Secondary Impacts: The establishment of the Sustainable Energy Corporation could have several secondary impacts on state revenues.

Potential Sources of Increases in State Revenue: If the Corporation is able to generate new investment by energy-related firms in Indiana, state revenue from various corporate taxes could increase.

Likewise, if more jobs are created, revenue from the state's Income and Sales Tax would also increase.

Potential Sources of Decreases in State Revenue: The state generally imposes a Sales Tax on the sale of electricity and natural gas. If the programs and fees initiated by the Sustainable Energy Corporation encourage consumers to reduce their consumption of energy, state Sales Tax revenue would decrease. Additionally, if the bill's provisions result in a reduction in a taxpaying utility's sales and the firm is not able to raise rates through the mechanisms provided in the bill, the state's corporate and gross utility taxes could be negatively impacted.

Revenue from the state's 6% Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the State General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Loan Fund (0.033%).

Explanation of Local Expenditures: Local governmental entities, including schools, would be subject to the surcharges imposed by the bill.

Explanation of Local Revenues:

State Agencies Affected: Indiana Utility Regulatory Commission; Office of the Utility Consumer Counselor; State Board of Accounts; Legislative Council; Governor; Lieutenant Governor; Department of Administration; Treasurer of State.

Local Agencies Affected: Local governmental entities.

Information Sources: U.S. Department of Energy, Energy Information Agency, *State Energy Data Report*.

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